

Credit Opinion

20 October 2023

Ratings	
Senior Unsecured Debt Rating	BBB _g
Long-Term Credit Rating	BBB _g
Outlook	Stable
Category	Corporate
Domicile	China
Rating Type	Solicited Rating

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Renshou Urban Investment Group Co., Ltd.

Initial credit rating report

CCXAP assigns first-time long-term credit rating of BBB_g to Renshou Urban Investment Group Co., Ltd., with stable outlook.

Summary

The BBB_g long-term credit rating of Renshou Urban Investment Group Co., Ltd. (“RUIG” or the “Company”) reflects Renshou County Government’s (1) strong capacity to provide support, and (2) extremely high willingness to provide support based on our assessment of the Company’s characteristics.

Our assessment of Renshou County Government’s capacity to support reflects that Renshou County is the most populous county in Sichuan Province, with relatively rich agricultural resources.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) crucial status as the most important infrastructure construction and state-owned assets operation entity in Renshou County; (2) government funding supports for its construction projects; and (3) diversified funding channels.

However, the rating is constrained by the Company’s (1) medium exposure to commercial activities, with operating performance lower than expectations; (2) large capital expenditure pressure; and (3) fast debt growth and moderate asset liquidity.

The stable outlook on RUIG’s rating reflects our expectation that the local government’s capacity to provide support will remain stable, and the Company will maintain its strategic importance in the development of Renshou County.

Rating Drivers

- Most important infrastructure construction and state-owned assets operation entity in Renshou County
- Good track record of receiving government support
- Diversified funding channels with low exposure to non-standard financing
- Medium exposure to commercial activities, generating relatively large amounts of cash flow
- Fast debt growth and moderate asset liquidity

Rating Sensitivities

What could upgrade the rating?

The rating could be upgraded if (1) Renshou County Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as materially reduced exposure to risky commercial activities and improved debt management.

What could downgrade the rating?

The rating could be downgraded if (1) Renshou County Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as deteriorated access to fundings, or material decreased government support.

Key Indicators

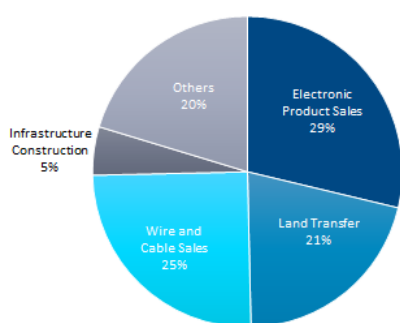
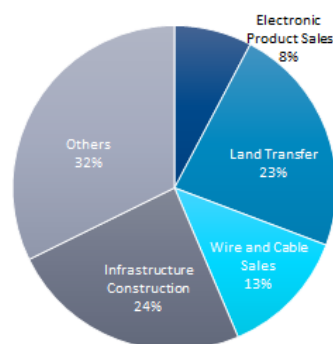
	2020FY	2021FY	2022FY	2023H1
Total Asset (RMB billion)	49.2	50.9	63.3	65.6
Total Equity (RMB billion)	28.8	29.7	36.3	36.5
Total Revenue (RMB billion)	3.8	5.0	6.5	3.0
Total Debt/Total Capital (%)	33.6	35.5	38.9	40.7

All ratios and figures are calculated using CCXAP's adjustments.

Source: CCXAP research

Corporate Profile

Formerly known as Renshou County Heilongtan Sunshine Cultural Tourism Development Co., Ltd., RUIG is the most important infrastructure construction and state-owned assets operation entity in Renshou County. After consolidating Renshou Development Investment Group Co., Ltd. and other local state-owned enterprises, the Company became the largest Local Infrastructure Investment and Financing Company ("LIIFC") by asset in Renshou County. RUIG is primarily engaged in infrastructure construction, land consolidation, public transport operation, water supply, and sewage treatment in Renshou County. It also undertakes commercial activities such as self-operating projects, electronic product sales, wire and cable sales, property leasing, and inspection services. As of 30 June 2023, the Company is wholly owned and ultimately controlled by the Renshou County State-owned Assets and Financial Affairs Bureau ("Renshou SAFAB").

Exhibit 1. Revenue Structure in 2022**Exhibit 2. Gross Profit Structure in 2022**

Source: Company information, CCXAP research

Rating Considerations

Government's Capacity to Provide Support

We believe that the Renshou County Government has a strong capacity to provide support for the Company given it has rich agricultural resources to support economic development.

Sichuan Province is a leading economic province and is recognized as one of the most developed provinces in China. In 2022, Sichuan recorded a gross regional product ("GRP") of RMB5.6 trillion, with a GRP growth rate of 2.9% year on year ("YoY"), ranking 6th in terms of GRP among all provinces in China. Its general budgetary revenue increased to RMB488.2 billion, up by 2.3% YoY. In 2023H1, Sichuan recorded a GRP of RMB2.8 trillion, with a YoY increase of 5.5%.

Meishan City is a prefecture-level city of Sichuan Province. It is a crucial part of the national-level Tianfu New Area, Chengdu Economic Zone and Greater Emei International Tourism Zone and a key area of the Cheng (Du) Le (Mountain) Golden Corridor. According to Meishan City's 14th Five-Year Plan for National Economic and Social Development and the Long-term Goals for 2035 Outline, the Renshou County Government promotes in-depth cooperation between Meishan Tianfu New Area and Chongqing Liangjiang New Area in the fields of new energy vehicles, electronic information, digital economy, medical care and health care. Meishan City's industrial development and living environment are expected to be comprehensively improved, its economic development is expected to have new opportunities.

In 2022, Meishan City achieved a GRP of RMB163.6 billion, an increase of 3.8% YoY, 0.9% higher than the GRP growth rate of Sichuan Province in 2022. Its general budgetary revenue amounted to RMB15.6 billion in 2022, ranking 7th among all cities in Sichuan Province, a YoY increase of 13.0%. However, affected by the pandemic and tax refund, the tax revenue of Meishan City decreased from RMB8.8 billion in 2021 to RMB7.7 billion in 2022; its government fund revenue decreased significantly from RMB47.1 billion in 2020 to RMB26.7 billion in 2022 due to land market downturn and real estate market fluctuations. The government debt was RMB63.6 billion in 2022, representing 38.9% of its GRP and around 100.3% of its total fiscal revenue.

Exhibit 3. Key economic and fiscal indicators of Meishan City

	2020FY	2021FY	2022FY
GRP (RMB billion)	142.4	154.8	163.6
GRP Growth (%)	4.2%	8.5%	4.1%
General Budgetary Revenue (RMB billion)	12.2	13.8	15.6
General Budgetary Expenditure (RMB billion)	27.5	27.7	31.1
Local Government Debt (RMB billion)	47.4	53.9	63.6

Source: Statistic Bureau of Meishan City, CCXAP research

Renshou County located in the southeast of Meishan City, with a total area of 2,717 square kilometers. Renshou County is the most populous county in Sichuan Province, with a permanent population of around 851 thousand in 2022. Renshou County is one of the top 100 counties in China for comprehensive strength, its GRP and general budgetary revenue ranks 2nd and 1st among 6 districts/counties in Meishan City in 2022. As one of the three major grain bases in Sichuan Province, it also has rich agricultural resources. Relying on its pillar industries of electronic information, food and agricultural sideline products processing, and advanced construction materials, Renshou County has continued to develop in recent years. Renshou County's GRP increased from RMB45.7 billion in 2020 to RMB52.0 billion in 2022, with a GRP growth rate of 3.0%. The Renshou County Government's general budgetary revenue increased from RMB3.7 billion in 2020 to RMB5.0 billion in 2022, of which tax revenue accounted for 57.4%. Renshou County has a moderate fiscal self-sufficiency, with an average fiscal balance ratio of 48.6% over the past three years. At end-2022, Renshou County's outstanding government debt was RMB18.0 billion, accounting for 34.6% of its GRP.

Exhibit 4. Key economic and fiscal indicators of Renshou County

	2020FY	2021FY	2022FY
GRP (RMB billion)	45.7	50.1	52.0
GRP Growth (%)	4.4	8.4	3.0
General Budgetary Revenue (RMB billion)	3.7	4.5	5.0
General Budgetary Expenditure (RMB billion)	8.5	8.9	9.7
Local Government Debt (RMB billion)	14.1	15.5	18.0

Source: Statistic Bureau of Renshou County, CCXAP research

Government's Willingness to Provide Support**The most important Infrastructure construction and state-owned assets operation entity in Renshou County**

RUIG is the most important infrastructure construction and state-owned assets operation entity in Renshou County, with a clear strategic role in regional development and the largest asset scale. The Company is mainly responsible for major public infrastructure and welfare projects construction in Renshou County, as well as land transfer and land consolidation. The Company also conducts public utilities in Renshou County, including public transport operation, water supply, and sewage treatment. We believe that the replacement cost for the Company's role is high as these public services are essential for local residents and regional development.

RUIG is responsible for the land consolidation and transfer in Renshou County. For land consolidation projects, the Company will first consolidate a land parcel with self-raised funds, which generate an indicator for cultivated land. The Renshou County Government would repay the Company based on the land consolidation cost plus

an agreed return. For land transfer projects, the Company would transfer its own land use right according to the Company or Renshou County's development plan. The Company transfers land in the auction market through the Renshou County Land Reserve Center and receives revenue from land transfer fee. As of 30 June 2023, the Company had 5 land projects (including high-standard farmland projects and land consolidation projects) under construction or planning, with a total investment amount of RMB892 million and an outstanding amount of RMB691 million. However, the business is susceptible to the fluctuation of local land and property markets, causing a degree of uncertainty in its land transfer income.

RUIG undertakes infrastructure construction projects such as roads, resettlement housing, and hospitals in the region with self-raised funds and government funds. The infrastructure construction projects undertaken by the Company are mainly carried out through an agency construction model. The Company signs entrusting construction agreements with the entrusting parties, who would repurchase the construction upon project completion. The entrusting party is usually the government department. The repurchase payment is calculated based on the construction cost plus an agreed return. As of 30 June 2023, the Company had 10 major infrastructure construction projects under construction or planning, with a total investment amount of RMB6.2 billion and an outstanding amount of RMB4.7 billion. RUIG's construction agency business has sufficient project reserves and good business sustainability, but it still requires a large scale of capital expenditure and the payback collection is relatively long.

The Company's public utility services business includes water supply, water installation services, and sewage treatment in Renshou County. As of 30 June 2023, the Company had 5 water supply plants with a total water supply capacity of 400 thousand tons per day. The Company also conducted sewage treatment business with a total designated processing volume of 100 thousand tons per day. In addition, the Company is responsible for the water installation services in Renshou County and receives the installation fee as a return. In 2022, the Company's revenue from water supply and installation service was RMB395.9 million, an increase of 25.7% over the previous year. Due to the increase in water supply capacity, it recorded a relatively high gross profit margin of 24.1% in 2022. Moreover, the Company is also responsible for the public transport operation in Renshou County. Due to the increasing operation cost and the public welfare nature of this business, the Company continues to suffer losses from public transport operations and receives financial subsidies from the government. Overall, given the strong regional franchise of the utility services, the business has good stability and sustainability.

Medium exposure to commercial activities, generating relatively large amounts of cash flow

RUIG is also engaged in commercial activities such as electronic product sales, wire and cable sales, self-operated projects, property leasing, and inspection services. The diversified business portfolio generates a relatively large amount of cash flow to the Company, but it has also significantly increased the Company's commercial business risks. We consider the Company's commercial business risk to be medium, because its commercial activities accounted for around 30% of its total assets.

Wire and cable sales business are one of the Company's major sources of income, which accounted for 25.0% of the total revenue in 2022. The wire and cable sales business mainly engages in the procurement, processing, production and sales of soft optical cables, wires, aluminum (alloy) poles, overhead insulated wires and other related products. However, the business is subject to a certain concentration risk. The top 5 customers accounted for 66.0% of the sales in 2022, while the top 5 suppliers accounted for 48.4% of the procurement. In addition, the sales of the business have a relatively large reliance on affiliated enterprises. The top 2 customers are affiliated enterprises, which accounted for 55.3% of the total sales in 2022. Due to the intensified industry

competition and the increasing operation cost, the wire and cable sales business recorded a modest gross profit margin of around 8.7% in 2022.

The Company also participated in the electronic product sales business, which accounted for 28.7% of the Company's total revenue in 2022. It mainly engaged in the production and sales of thin film transistor (TFT-LCD) liquid crystal displays and other semiconductor products. Similar to the Wire and cable sales business, the electronic product sales business is also subject to a high concentration risk and relatively large reliance on affiliated enterprises. Truly Optoelectronics Renshou Co., Ltd. is an affiliated company, as well as the most important customer of the electronic product sales business, which accounted for 81.7% of the total sales. Due to the increasing operation cost, the gross profit of the business significantly decreased from 19.4% in 2021 to 4.6% in 2022.

RUIG engaged in self-operating projects, such as meeting hall, tourism project, and sewage treatment plant. The Company constructs these projects with self-raised funds, and achieves breakeven through receiving operating income. As of 30 June 2023, the Company had 10 self-operating projects under construction, with a total investment amount of RMB4.9 billion and an outstanding amount of RMB2.2 billion, exerting a certain large capital expenditure pressure. Other businesses such as property leasing, inspection services, and medical device sales provide supplementary income to the Company. However, the small operating scale of these businesses limits its contribution to the Company's overall cash flow and profit.

Good track record of receiving government support

The Company has a solid track record of receiving support from the local government in the past few years, including government subsidies, cash injections, asset injections, and equity transfers. From 2020 to 2023H1, the Company received total government subsidies (including fiscal discount) of RMB954.9 million. In addition, the Company received a total cash injection of RMB3.2 billion over the same period. The Company also receives repurchase payments for its public projects. In 2022, the Company received an asset injection of RMB2.0 billion from the local government, mainly the sandstone operating rights. Considering RUIG is the most important infrastructure construction and state-owned assets operation entity in Renshou County, we expect the Company to receive ongoing support from the local government in the future.

Exhibit 5. Government support from 2020 to 2023H1

(RMB million)	2020FY	2021FY	2022FY	2023H1
Government Subsidies	555	335	47	18
Repurchase repayment	1,334	1,194	859	344
Cash Injections	1,910	595	463	215
Asset Injections	-	-	2,001	-
Total	3,799	2,124	3,370	577

Source: Company information, CCXAP research

Fast debt growth and moderate asset liquidity

RUIG has demonstrated a fast debt growth as a result of relatively large capital demands for the construction projects. RUIG's total debt had increased significantly from RMB14.6 billion at the end of 2020 to RMB25.1 billion as of 30 June 2023, while its capitalization ratio increased from 33.6% to 40.7% over the same period. The Company's short-term debt accounted for 35.6% as of 30 June 2023. Given the Company's relatively large capital expenditure on construction projects, we expect the Company will have fast debt growth for the next 12-

18 months. Fortunately, some of the Company's infrastructure project expenditure can be supported by government special bonds, which can partially reduce the Company's capital expenditure pressure.

In addition, the Company has moderate asset liquidity. The Company had a relatively large amount of restricted assets totaling RMB18.4 billion, which accounted for 28.0% of its total assets as of 30 June 2023. Most of the restricted assets are used for pledge financing. Moreover, the Company's total asset mainly consists of inventories and receivables, accounting for 45.7% of its total assets as of 30 June 2023, which are considered low liquidity.

The Company bears manageable risks arising from external guarantees. As of 30 June 2023, the Company had outstanding external guarantees of RMB2.7 billion, representing 7.5% of its net assets.

Diversified funding channels with low exposure to non-standard financing

RUIG has good access to the debt capital market and maintains a good relationship with large domestic banks. As of 30 June 2023, about 72.4% of the Company's debt financing was provided by domestic banks. The Company has sufficient standby liquidity, given its relatively large amount of available credit facility. As of 30 June 2023, it held a total bank credit facility of RMB30.4 billion, and the available credit facility was RMB11.5 billion. Around 21.1% of the Company's debt was provided by the debt capital market. Since 2022, the Company further expanded its funding channels to the offshore debt capital market. In June 2022, the Company's subsidiary Renshou Xingxin Industrial Investment Co., Ltd. issued an EUR bond, with a total issuance amount of EUR48 million. In addition, the Company has a low exposure to non-standard financing, such as financial leasing, which accounted for only 6.5% of its total debt.

ESG Considerations

RUIG bears environmental risks through its infrastructure projects. Such risks could be mitigated by conducting environmental studies and detailed planning before the commencement of the projects and close supervision during construction.

RUIG bears social risks as it implements public policy initiatives by building public infrastructure in Renshou County. Demographic changes, public awareness and social priorities shape the Company's development targets and ultimately affect the local government's propensity to support the Company.

RUIG's governance considerations are also material as the Company is subject to oversight by Renshou County Government and has to meet several reporting requirements, reflecting its public-policy role and status as a government-owned entity.

Structural considerations

RUIG's senior unsecured debt rating is equivalent to its long-term credit rating. We believe that government support will flow through the Company given its important role in local infrastructure construction in Renshou County, thereby mitigating any differences in an expected loss that could result from structural subordination.

Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).

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